'This is a booming market, we are seeing a lot of investment opportunities'

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There are two types of solar energy companies in the industry. One, companies who respond to tenders of electricity distribution companies — most of whom are government-owned — and, if they win projects, sell solar power to them over long periods, typically, 25 years. Some examples of these companies are ReNew Power, Hero Future Energies and Sembcorp.

The other type of solar companies are those that sell power directly to consumers under bilateral contracts, popularly known as the 'opex model'. The consumers are invariably industrial; they don't have to spend a rupee on setting up the solar plant, they only have to pay for the energy. This segment is smaller, but growing.

Two companies have dominated this space in India, Amplus Solar and CleanMax Solar, and both of them have been in the news lately.

The Malaysian oil company, Petronas, has announced that it will buy over Amplus from the investors in a deal said to be around ₹2,700 crore; CleanMax Solar has announced ₹275 crore of investments into it from UK Climate Investments LLP. Only in 2017, the company had raised $100 million from Warburg Pincus. It stands to reason that the 'opex model' is attractive.

BusinessLine caught up with Andrew Hines, Co-Founder, CleanMax Solar, which grew from 8 MW in 2014-15 to 500 MW last year, for his views on the industry. Excerpts from the interview:

You have raised ₹275 crore from UKCI. This is the second such big deal. What is the background?

Our business is a capital-intensive one. The more we grow, the more we need equity. We have always known that we would need to raise equity, so the discussions around it have been continuous.

We are in two kinds of businesses. One is rooftop solar, where the business is growing steadily, at around 70 MW a year as of last year. The other business is 'open access' (large, typically ground-mounted plants meant for producing electricity for individual customers).

This business is lumpy. For example, we did 270 MW in a single quarter in 2017-18, then we didn't have any capacity coming in 2018-19 as we were building a fresh pipeline.

But in 2019-20 we will have more open access capacity coming in. It was clear that we would need equity to do that. Any equity raising process takes some time to come to fruition, so we started this discussion last year. We are really happy with UKCI and Macquarie coming in as we believe they will be great partners for our continued growth.

CleanMax has preferred to raise equity at the corporate level rather than project or portfolio level, from structures such as YieldCos. Why?

A big advantage of raising equity at corporate level is that it enables you to grow quickly as opportunities come up. This is a booming market, we are seeing lot of growth, a lot of investment opportunities.

The most important thing for us is that we should never have to pass an opportunity.

If you are an IPP that bids in government tenders, you can keep away from the bids while you raise equity — that is fine, for you can put things on hold and come back later. But in a B2B business, you can't do that.

Of course, that doesn't preclude other kinds of financing in future. Once you set up a project that will yield revenues for 25 years, there are lots of ways of raising finance.

What is the exit route for your investors? Do you have a listing in mind?

I am not able to comment on it.

How is the lending environment for the solar sector?

For solar-specific lending, the lending environment has improved with banks becoming familiar with solar. Three years ago, it was challenging to raise debt, especially for rooftop solar projects, now it is not so.

But on the overall lending environment, this is not a great time right now, things have been happening on the lending side and we have been impacted too. Typically our projects are 65-70 per cent debt-funded.

The last couple of quarters have been less than ideal, but manageable.

Is raising debt a concern today?

It is a short-term concern. It is not at a point where we are not able to borrow.

How have the 'open access' (direct sale of electricity) tariffs been moving?

Tariffs closely track module prices. The safeguard duty (on imported modules) has increased prices but module prices have been on the decline, so it has had a dousing effect on tariffs. If you look at the competitive bidding too, tariffs have levelled off — a year ago, you were seeing a lower number at every bid. In the longer term, tariffs may be on the downward trend, but likely not as steeply as in previous years.

Andrew Hines
Co-Founder
CleanMax Solar

But how are tariffs in open access?

It is about ₹4-5 a kWhr, but it depends heavily on the terms of the contract, such as duration, and will vary by State. Shorter contracts (for example, 10 years) will result in higher tariffs than 20-25-year contracts.

Given that open access tariffs are lower than grid tariffs, shouldn't this sector have taken off faster than it has?

A reason why adoption takes a bit of time is that on the regulatory side, you need to have a supporting policy. In some States, there isn't even the possibility of a project getting approved.

For example, in Rajasthan, they were back and forth on policy, but ultimately no open access for group captive solar projects.

In some other small States such as Delhi and Puducherry, open access has practical difficulties. Also, it always takes time for customers to evaluate opportunities before adopting.